

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Monroe County Employees' Retirement System		County Monroe	
Audit Date 12/31/04		Opinion Date 3/21/05		Date Accountant Report Submitted to State: 4/27/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

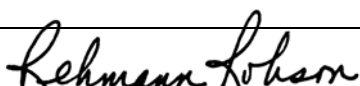
1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			X
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) REHMANN ROBSON GERALD J. DESLOOVER, CPA				
Street Address 5800 GRATIOT, PO BOX 2025		City SAGINAW	State MI	Zip 48605
Accountant Signature 				

**MONROE COUNTY
EMPLOYEES' RETIREMENT
SYSTEM**

Financial Statements

**For The Years Ended
December 31, 2004 and 2003**



REHMANN ROBSON

Certified Public Accountants

MONROE COUNTY EMPLOYEES' RETIREMENT SYSTEM

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REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP



INDEPENDENT AUDITORS' REPORT

March 21, 2005

To the Board of Trustees
Monroe County Employees' Retirement System
Monroe, Michigan

We have audited the accompanying statements of plan net assets of the ***Monroe County Employees' Retirement System*** (the "System") as of December 31, 2004 and 2003, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Employees' Retirement System pension trust fund and do not purport to, and do not present fairly the financial position and the changes in financial position of Monroe County as of and for the year ended December 31, 2004 and 2003, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the System's net assets held in trust for benefits at December 31, 2004 and 2003, and changes therein for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The required supplemental information in the table of contents is not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

FINANCIAL STATEMENTS

MONROE COUNTY EMPLOYEES' RETIREMENT SYSTEM

Statements of Plan Net Assets

December 31, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Assets		
Cash and cash equivalents	\$ -	\$ 1,828
Investments, at fair value:		
U.S. Government obligations	28,003,360	25,065,750
Corporate bonds	26,254,119	40,715,771
Corporate stocks	80,314,077	65,612,041
International stocks	13,233,565	10,873,893
Money market	6,946,570	5,473,623
Total investments	<u>154,751,691</u>	<u>147,741,078</u>
Accounts receivable	1,968	153,919
Accrued interest and dividends	<u>916,273</u>	<u>898,727</u>
 Total assets	 155,669,932	 148,795,552
 Liabilities		
Accounts payable / accrued expenses	<u>133,300</u>	<u>390,453</u>
 Net assets held in trust for pension benefits (a schedule of funding progress is presented on Page 8)	 <u><u>\$ 155,536,632</u></u>	 <u><u>\$ 148,405,099</u></u>

The accompanying notes are an integral part of these financial statements.

MONROE COUNTY EMPLOYEES' RETIREMENT SYSTEM

Statements of Changes in Plan Net Assets For the Years Ended December 31, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Additions		
Investment income:		
<i>From investing activities:</i>		
Net appreciation in		
fair value of investments	\$ 8,156,718	\$ 14,594,654
Interest and dividends	4,506,279	5,392,285
Total investment gain	12,662,997	19,986,939
Investment management fees	(901,632)	(730,885)
Net gain from investing activities	11,761,365	19,256,054
<i>From securities lending activities:</i>		
Gross earnings	337,702	259,040
Borrower rebates	(282,223)	(198,561)
Securities lending fees	(22,129)	(24,123)
Net income from securities lending activities	33,350	36,356
Total net investment gain	11,794,715	19,292,410
Contributions:		
Employer	1,411,037	191,979
Participants:		
Regular	295,645	297,223
Time purchase	14,641	49,065
Total contributions	1,721,323	538,267
Total additions	13,516,038	19,830,677
Deductions		
Participant benefits	5,276,676	4,778,990
Participant refunds	591,245	587,662
Administrative expenses	516,584	431,447
Total deductions	6,384,505	5,798,099
Net additions to net assets held in trust for benefits	7,131,533	14,032,578
Net assets held in trust for benefits, beginning of year	148,405,099	134,372,521
Net assets held in trust for benefits, end of year	<u>\$ 155,536,632</u>	<u>\$ 148,405,099</u>

The accompanying notes are an integral part of these financial statements.

MONROE COUNTY EMPLOYEES' RETIREMENT SYSTEM

Notes To Financial Statements

1. PLAN DESCRIPTION

The Monroe County Employees' Retirement System (the "System") is a single-employer defined benefit contributory pension plan administered by the Monroe County Employees' Retirement System Board of Trustees (the "Board"). The System primarily provides pension, disability and death benefits, covering substantially all full-time employees of Monroe County and its component units, including:

- Monroe County Library System
- Monroe County Road Commission
- Monroe County Drain Commissioner
- Monroe County Agency
- Monroe County Community Mental Health Authority

The System was adopted by Monroe County pursuant to Michigan Compiled Laws, Section 46.12a. Benefit provisions are established by and may be amended by the Board as permitted by County Ordinances. The System is reported as a pension trust fund in the County's financial statements.

System membership consisted of the following at December 31, 2003 (the date of the latest actuarial valuation):

Retirees and beneficiaries currently receiving benefits	364
Terminated employees entitled to but not yet receiving benefits	122
Active participants	958

Central Dispatch supervisors and Sheriff Department employees (consisting of deputies and command, jail and corrections officers) are required to contribute 3.0% of the first \$7,800 in earnings and 5.0% of earnings thereafter to the System. Road Commission employees are required to contribute 3.1% of their annual earnings. All other County employees, along with employees of the Library System, Drain Commissioner, County Agency and Community Mental Health Authority, are not required to contribute.

The employer contributes such additional amounts, as necessary based on an actuarial determination, to provide assets sufficient to pay for member benefits. Employer contributions for the year ended December 31, 2004 totaled \$1,411,037 (including \$132,130 from the County for Central Dispatch employees and \$321,520 from the Road Commission).

MONROE COUNTY EMPLOYEES' RETIREMENT SYSTEM

Notes To Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting - The System's financial statements are prepared on the accrual basis of accounting. Member contributions are recognized in the period in which they are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide them. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Valuation of Investments and Income Recognition - The System's investments are stated at fair value which is determined as follows: (a) short-term investments are reported at cost, which approximates fair value; (b) securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates; (c) investments that do not have established market values are reported at estimated fair value; and (d) cash deposits are reported at carrying amounts which reasonably approximates fair value.

Administration - Administrative costs are paid through the System's investment earnings.

Reclassifications - Certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

3. INVESTMENTS AND SECURITY LENDING

The System's investments are primarily held in a bank-administered trust fund. Following is a summary of the System's investments as of December 31:

	<u>2004</u>	<u>2003</u>
Investments at fair value, as determined by quoted market price:		
U.S. government obligations:		
Not on securities loan	\$ 18,505,251	\$ 18,968,574
On securities loan	9,498,109	6,097,176
Corporate bonds and notes:		
Not on securities loan	23,442,026	39,474,772
On securities loan	2,812,093	1,240,999
Common stocks:		
Not on securities loan	70,188,028	58,439,815
On securities loan,,	10,126,049	7,172,226
International securities	13,233,565	10,873,893
Money market funds	<u>6,946,570</u>	<u>5,473,623</u>
Total investments	<u>\$ 154,751,691</u>	<u>\$147,741,078</u>

MONROE COUNTY EMPLOYEES' RETIREMENT SYSTEM

Notes To Financial Statements

Investments are categorized to give an indication of the level of risk assumed at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the System or its agent in the System's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the System's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent but not in the System's name. At December 31, 2004 and 2003, all of the System's investments are classified in Category 1, except for investments in money market funds that are not required to be categorized.

A contract approved by the System's Board of Trustees, permits the System to lend its securities to broker-dealers and other entities (borrowers) for collateral that will be returned for the same securities in the future. The System's custodial bank manages the securities lending program and receives securities or irrevocable bank letters of credit as collateral. The collateral securities cannot be pledged or sold by the System unless the borrower defaults. Collateral securities and letters of credit are initially pledged at 102 percent of the market value of the securities lent, and may not fall below 100 percent during the term of the loan. There are no restrictions on the amount of securities that can be loaned.

Securities on loan at year-end are classified in the preceding schedule of custodial credit risk according to the category for the collateral received on the securities lent. At year end, the System has no credit risk exposure to borrowers because the amounts the System owes the borrowers exceed the amounts the borrowers owe the System. The contract with the System's custodian requires it to indemnify the System if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the System for income distributions by the securities' issuers while the securities are on loan.

4. ANNUAL REQUIRED CONTRIBUTION

The annual pension cost and net pension obligation for the year ended December 31, 2004 were as follows:

Annual required contribution/ pension cost	\$ 1,411,037
Contribution made	<u>1,411,037</u>
Increase (decrease) in net pension obligation	-
Net pension asset, beginning of year	<u>-</u>
Net pension asset, end of year	<u><u>\$ -</u></u>

MONROE COUNTY EMPLOYEES' RETIREMENT SYSTEM

Notes To Financial Statements

The annual required contribution for 2004 was determined as part of an actuarial valuation of the System as of December 31, 2002 using the entry age normal cost method and is designed to accumulate sufficient assets to pay benefits when due. Normal cost is funded on a current basis. Unfunded actuarial accrued liabilities are being amortized as a level percent of payroll over a period of 21 years. Significant actuarial assumptions used include: (a) a rate of return on investments of 7.0% per year compounded annually; (b) projected salary increases of 4.0% per year compounded annually, attributable to inflation; (c) additional projected salary increases ranging from 1.0% to 8.0% per year, depending on age and service, attributable to seniority/merit; and (d) the assumption that pension benefits will not increase after retirement.

The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the fair value of investments over a five-year period. Liabilities created by plan, assumption or method changes are amortized as a level percentage of payroll over a 14-year closed period. Liabilities created by plan experience and all other liabilities or over-funding are amortized as a level percentage of payroll over a 9-year open period.

Three-Year Trend Information

<u>Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
12/31/02	\$ 155,524	100%	\$ -
12/31/03	191,979	100%	-
12/31/04	1,411,037	100%	-

GASB Statement 25 required supplementary information is presented after the notes to the financial statements section of this report.

* * * * *

REQUIRED SUPPLEMENTARY INFORMATION

MONROE COUNTY EMPLOYEES' RETIREMENT SYSTEM

Required Supplementary Information

SCHEDULE OF FUNDING PROGRESS

	(1)	(2)	(3)	(4)	(5)	(6)
Actuarial Valuation Date December 31,	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded AAL (Overfunded) (UAAL) (2-1)	Funded Ratio (1/2)	Covered Payroll	UAAL as a % of Covered Payroll (3/5)
1994	\$ 75,138,352	\$ 69,394,129	\$ (5,744,223)	108.3%	\$ 24,966,463	-23.0%
1995	83,546,195	73,933,400	(9,612,795)	113.0%	26,408,333	-36.4%
1996	93,061,504	78,450,435	(14,611,069)	118.6%	26,643,235	-54.8%
1997	105,788,939	87,098,801	(18,690,138)	121.5%	28,814,126	-64.9%
1998	117,699,465	91,136,434	(26,563,031)	129.1%	29,309,641	-90.6%
1999	132,836,927	97,650,685	(35,186,242)	136.0%	31,064,894	-113.3%
2000	143,765,352	105,824,598	(37,940,754)	135.9%	32,749,688	-115.9%
2001	150,304,504	116,359,159	(33,945,345)	129.2%	35,250,392	-96.3%
2002	148,404,995	125,652,447	(22,752,548)	118.1%	35,895,185	-63.4%
2003	162,683,115	139,141,015	(23,542,100)	116.9%	37,862,618	-62.2%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ended December 31,	Annual Required Contribution	Annual Actual Contribution	Percentage Contributed
1995	\$ 1,765,027	\$ 1,765,027	100.00%
1996	1,715,166	1,715,166	100.00%
1997	1,619,271	1,619,271	100.00%
1998	1,110,338	1,110,338	100.00%
1999	579,687	579,687	100.00%
2000	197,395	197,395	100.00%
2001	133,907	133,907	100.00%
2002	155,524	155,524	100.00%
2003	191,979	191,979	100.00%
2004	1,411,037	1,411,037	100.00%